AN ANALYSIS OF THE PRESIDENT'S CREDIT BUDGET FOR FISCAL YEAR 1986

Staff Working Paper

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables may not add to totals because of rounding.

PREFACE

This staff working paper analyzing the federal credit budget was prepared by the Congressional Budget Office (CBO) at the request of the House and Senate Budget Committee staffs. The paper provides a general introduction to credit budget concepts and historical data on credit budgets. It reviews the Administration's credit budget proposals for the years 1986 to 1990, which have been reestimated by CBO. Major proposed program changes are discussed in terms of new credit program levels, the net outlay increases and savings represented, and the subsidy cost implications of the proposal. Finally, the paper details the credit budget by major function. It includes descriptions of all major credit programs, and the impact of the President's request on the larger credit programs.

The paper was prepared by Dick Emery and Mark Weatherly of the Budget Process Unit. Review and comment were provided by Marvin Phaup. Sherry Snyder edited the manuscript which was typed by Paula Gatens and Brenda Lockhart. Any questions or comments on its contents should be directed to them at (202) 226-2835.

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SUMMARY

The Administration's 1986 budget proposed decreases in credit levels consistent with the intention to reduce the federal government's presence in capital markets, and to improve the spending deficit of the government.

The Congressional Budget Office (CBO) has reestimated the President's budget using CBO economic assumptions and technical estimating methods. When the reestimated President's budget is compared with CBO baseline projections, which assume no change in current policy, the President's proposal is for $25.8 billion in new direct loan obligations for 1986. This would be a 52 percent decrease from the previous year. The President has proposed gradually lower direct loan levels in each year from 1987 to 1990. Direct loan programs slated for sizable reductions or elimination include the programs of the Farmers Home Administration, the Rural Electrification and Telephone Revolving Fund, the Export-Import Bank, and the Small Business Administration.

To offset partially this loss of subsidized borrowing to program constituents, the Administration proposes a slight increase in guaranteed loans. Relative to the CBO baseline, guarantee commitments would increase in 1986 by $2.4 billion, or 3 percent. For the five-year period ending in 1990, the Administration's proposals would increase guarantees by $10.3 billion, or 2.5 percent over the guarantee amount estimated to occur under current policies.

Although federal guaranteed loans represent governmental intrusion into private capital markets, they have no budgetary effect unless a default on the guaranteed loan ensues. Therefore guarantees usually have a small effect on outlays and the government's deficit position. Federal direct loans, in contrast, have a more immediate impact on outlays. The $110 billion reduction from baseline of direct loans that the Administration proposes translates into nearly $80 billion in reduced outlays over the period. Direct loans are unique among forms of government spending in that they

also represent future cash inflows as loans are repaid. For this reason the outlay impact of one fewer dollar in direct loan obligations is not properly understood unless the change in the government's cash position is viewed over the time period including loan repayment.

The President's Office of Management and Budget (OMB) and CBO have been examining ways of capturing this cash effect over time. One way of measuring the effect--expressed as the "subsidy" implicit in the government loan--is used in this report. In Chapters II and III major program changes are viewed from several perspectives: their effect on total government credit activity, their outlay effect, and the change in subsidies extended.

CHAPTER I

CREDIT ACTIVITY IN AGGREGATE

The credit budget includes both the loans the federal government makes and the loans it guarantees. A direct loan is a cash payment by a federal agency to a borrower to be repaid with interest over the life of the loan. Direct loans are almost always at subsidized interest rates. A guaranteed loan is a contractual commitment by a federal agency to repay the principal and interest on a loan, in whole or in part, in case of default by the borrower. Guaranteed loans reduce the lenders' exposure to risk, but generally do not involve federal expenditures except when borrowers default.

The credit budget is stated in terms of direct loan obligations and new loan guarantee commitments. Obligations for direct loans are contracts requiring that the government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the government to guarantee a loan when the borrower or lender fulfills stipulated conditions. Both concepts define the point at which the government becomes legally bound, the point most amenable to executive and legislative control.

The credit budget does not include the lending of privately owned government-sponsored enterprises (for example, the Federal National Mortgage Association and the Student Loan Marketing Association). The loans of these organizations are not guaranteed by the government, but are perceived to have the moral and political backing of the government.

REVIEW OF RECENT CREDIT ACTIVITY

In 1984, federal direct loan obligations decreased by nearly 5 percent while primary loan guarantees dropped more than 26 percent from the previous year's levels (see Table 1 and Figure 1). The relative impact on the economy of these changing federal credit levels is more apparent when federal lending is viewed as a percentage of gross national product (GNP).

TABLE 1. SUMMARY OF ANNUAL AND OUTSTANDING DIRECT LOAN OBLIGATIONS AND LOAN GUARANTEE COMMITMENTS (By fiscal year, in billions of dollars)

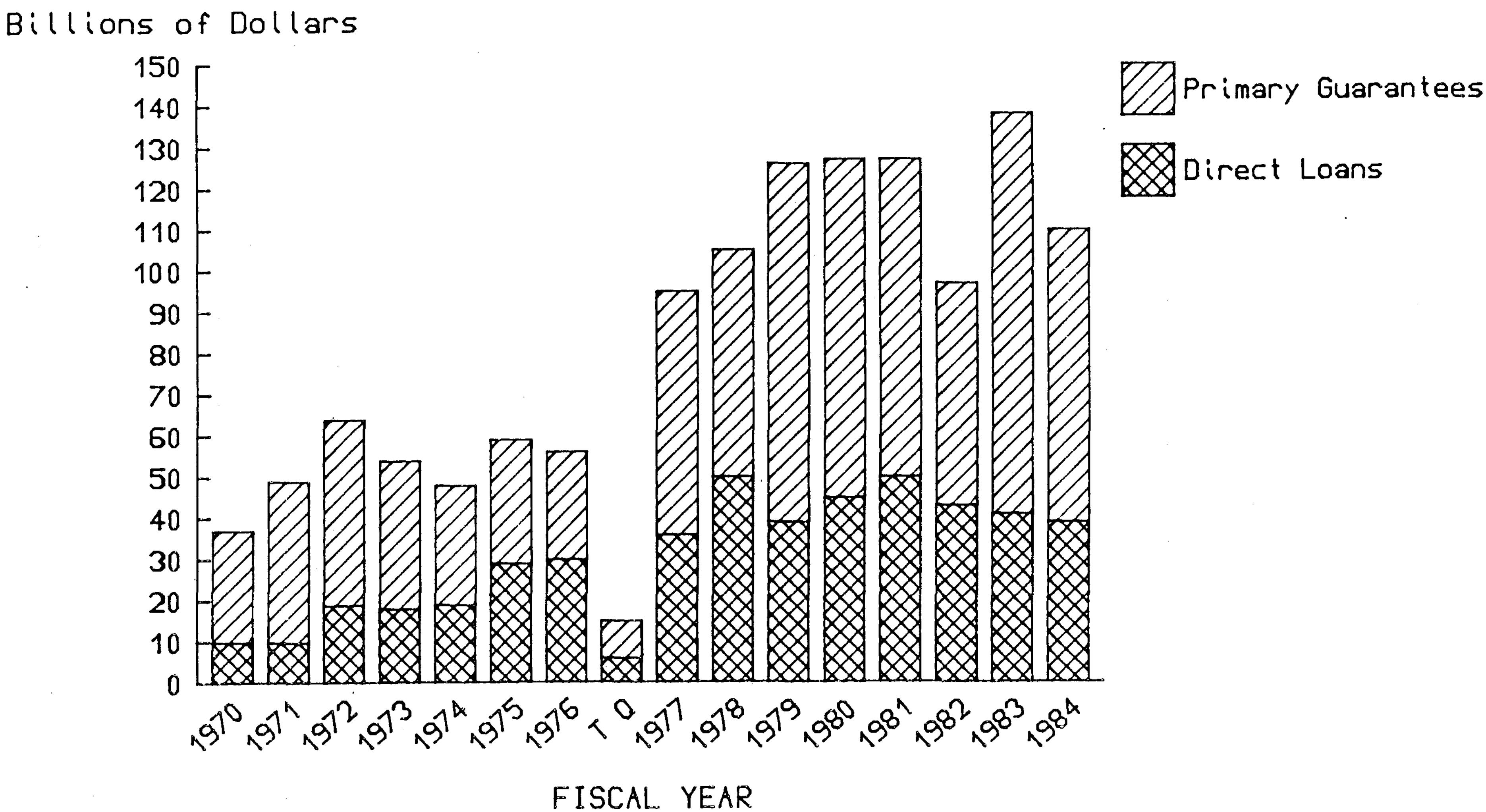
Fiscal Year	Direct Loan Obligations	Primary Loan Guarantee Commitments	Secondary Loan Guarantees	Cumulative Outstanding Direct Loans	Cumulative Outstanding Primary Loan Guarantees
1970	10	27	--	51	125
1971	10	39	3	53	140
1972	19	45	4	50	159
1973	18	36	4	57	174
1974	19	29	4	61	180
1975	29	30	6	74	189
1976	30	26	9	86	201
TQ	6	9	3	90	200
1977	36	59	17	101	214
1978	50	55	18	120	226
1979	39	87	42	141	265
1980	45	82	64	164	299
1981	50	77	44	185	309
1982	43	54	36	208	331
1983	41	97	64	223	364
1984	39	71	40	229	387

SOURCE: Budget of the United States Government, Special Analysis on Federal Credit, 1972-1986.

NOTE: TQ = transition quarter.

Figure 1.

ANNUAL FEDERAL CREDIT ACTIVITY



SOURCE: Budget of the United States Government, Special Analysis on Federal Credit, Fiscal Years 1972-1986

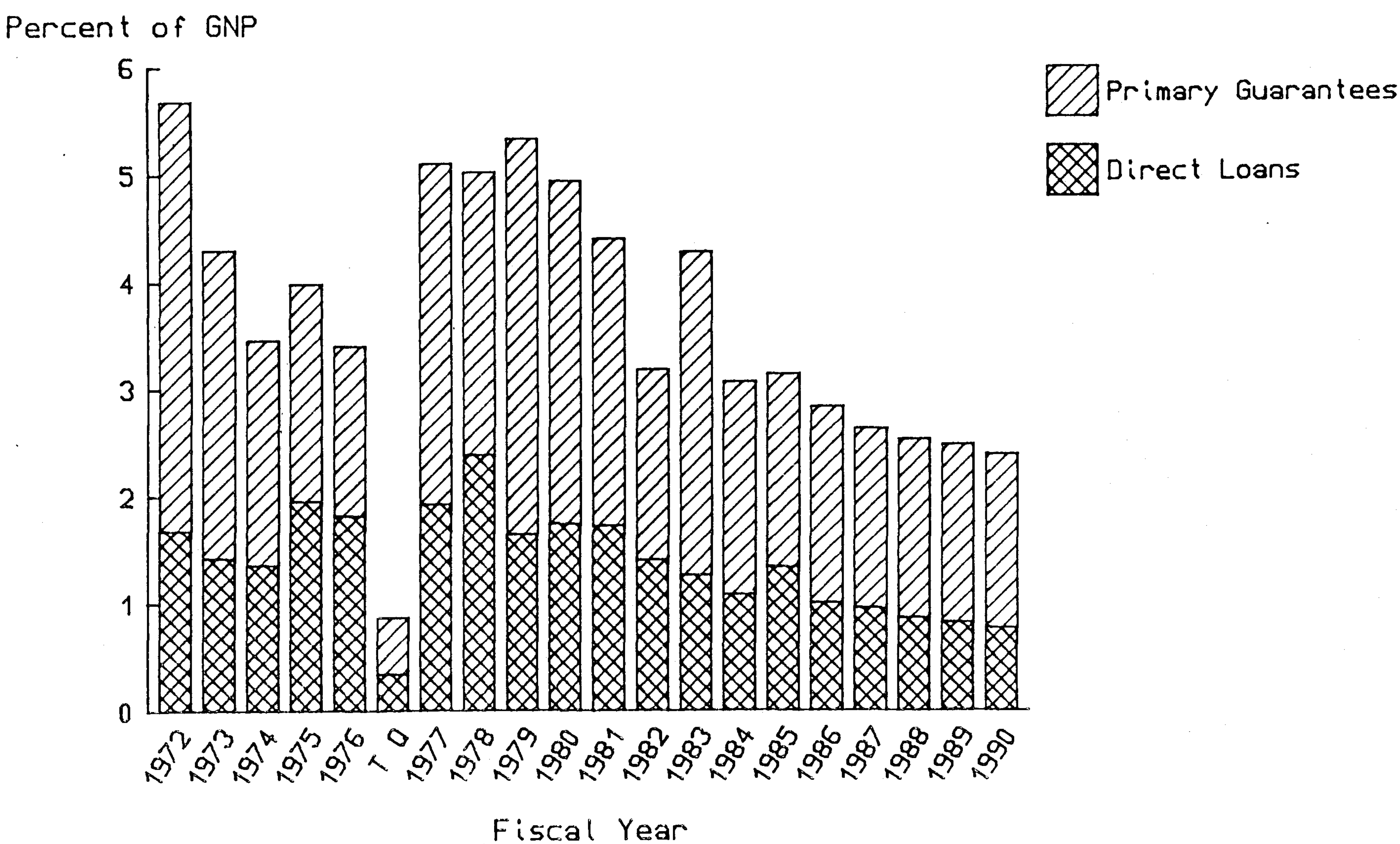
Direct loans dropped from 1.3 percent of GNP in 1983 to 1.1 percent in 1984, compared with the historical high in 1978 when direct loans were 2.4 percent of GNP (see Figure 2). Guaranteed loans decreased from 3 percent of GNP in 1983 to 2 percent in 1984; this compares with the high in 1972 when federal loan guarantees were 4 percent of GNP. Much of the decrease in direct loans in 1984 was in the Commodity Credit Corporation (CCC) where total obligations decreased from nearly $14 billion in 1983 to $5 billion in 1984. The drop in guarantee commitments was largely accounted for by the Federal Housing Administration (FHA), which went from $44.6 billion in 1983 to $17 billion in 1984 commitments. A more detailed discussion of individual credit programs appears in Chapter III.

While credit activity declined from 1983 to 1984, compared with pre-1977 loan levels the last eight years have evidenced an increased use of loans and guarantees as policy tools. Some of the causes of these high credit levels are controllable, while others result from prevailing economic conditions and other factors external to the budget process. Identifying the causes for yearly changes in federal credit activity is essential in order to select the options for credit program control. Some loan levels have increased because of inflation, because of either explicit decisions by the Congress to keep pace with inflation or decisions by borrowers to take advantage of the lower government loan rates relative to increasing rates in the private credit markets. In the largest entitlement programs, such as Guaranteed Student Loans, loan levels have increased with the growth in the eligible population. Housing aid (which comprises by far the largest type of federal credit assistance) has increased with the recent growth in the first-time home-buying population (ages 30 to 35), and yet responds inversely to inflation, when higher market interest rates keep prospective home buyers out of the market.

HOW FEDERAL CREDIT LEVELS ARE DETERMINED AND CONTROLLED

In both direct and guaranteed loan totals, only the amount included in annual appropriation limits is directly specified by the Congress. In 1984, 28 percent of direct loans obligated and 35 percent of primary guarantees committed were subject to annual limits. A small amount of direct loans (8 percent in 1984) is controlled through action on budget authority, such as

Figure 2.
FEDERAL LENDING as PERCENT of GNP



SOURCE: *Congressional Budget Office*

the Food For Peace and Low-Rent Public Housing programs. 1/ Table 2 gives an idea of the extent and kind of scrutiny applied to credit programs.

The majority of credit levels are determined indirectly by authorizing language specifying the characteristics of groups entitled to credit assistance, such as farmers who faced physical disasters or veterans who served more than two years who want to buy a personal residence. In addition, almost 9 percent of 1984 direct loans was made by agencies honoring guarantees of loans from private lenders which lapsed into default. At the time a guarantee defaults, the agency repays the lender holding the guarantee. The borrower then owes repayment to the government and the amount is recorded as a direct loan. If the agency believes there is no hope of repayment, however, the amount is written off. This type of direct loan, as well as those made by the Federal Financing Bank (FFB) to agency-guaranteed borrowers, can be controlled only indirectly by limiting guarantee levels, or by specifying through authorizing language the types of eligible loans and borrowers that can be guaranteed.

The Credit Budget

The unified budget does not adequately convey information on credit programs. It records direct loans net of repayments from past loans. In addition, proceeds from the sale of certificates of beneficial ownership are treated as repayments in calculating the net lending figure, keeping billions of dollars in direct loans from being recorded in the unified budget. Guaranteed loans appear only in the event of a default claim, which usually occurs years after the original loan was guaranteed. The credit budget was established to provide an explicit view of all gross lending by the federal government in any year. Formally adopted for use in the 1981 budget, the

1. Actual direct loans for the public housing program will be abnormally high in 1985 because of a one-time conversion of $13 billion in guarantees to direct loans. The General Counsel of the Department of Housing and Urban Development, anticipating an unfavorable ruling by the Internal Revenue Service regarding the tax-exempt status of public housing bonds, decided to stop guaranteeing the bonds. Maturing bonds were converted to direct loans instead of being "rolled over," or renewed, as was previously the case.

TABLE 2. SOURCES OF CREDIT PROGRAM LEVELS
(By fiscal year, in billions of dollars)

	1984 Actual	1985 Budget Resolution	1985 Current Estimate	1986 Baseline
Direct Loan Obligations				
New Loans to the Public				
Annual appropriation limits	14.4	17.9	18.3	19.0
Unused balance of limitation	-3.2	-1.5	-1.9	-0.6
Appropriations of budget authority	3.1	1.7	16.1	3.7
Unrestricted program authorizations	15.1	13.4	14.4	14.5
Direct loans by FFB to agency-guaranteed borrowers	6.3	4.1	2.2	2.2
Defaulting loan guarantees	3.5	2.6	2.9	2.8
Gross direct loan obligations	39.2	38.2	52.0	41.6
Financing Transactions				
Repurchase from FFB of maturing loan assets	10.3	6.9	6.9	1.3
Sale of agency loan assets to FFB	13.2	10.6	12.0	7.2
Loan Guarantee Commitments				
New Guarantees to the Public				
Annual appropriation limits	62.1	60.9	62.2	65.0
Unused balance of limitation	-37.0	-2.0	-27.8	-28.5
Unrestricted program authorizations	45.7	53.3	34.3	39.2
Primary loan guarantee commitments	70.8	112.2	68.7	75.7
Financing Transactions				
Guarantees of agency loan asset sales to the FFB	13.2	10.6	12.0	7.2
Guarantees of FFB-originated direct loans	6.3	4.1	2.2	2.2
Secondary guarantees	68.3	68.3	68.2	71.3
Unused balance of limitation	-28.6	--	-27.0	-28.2
Total secondary guarantee commitments	39.7	68.3	41.2	43.1

SOURCE: Data for 1984 are from Budget of the U.S. Government: Fiscal Year 1986. Estimates for 1985 and 1986 are from Congressional Budget Office.

credit budget is stated in terms of direct loan obligations and loan guarantee commitments. It is at the point of obligation and commitment that the government becomes legally bound to the future costs of loan programs.

Unfortunately, future costs, and therefore the actual total cost, of federal credit activity are not portrayed in either the unified or the credit budget. A proposal to remedy this problem is discussed in the section below on subsidies. The credit budget does, however, record off-budget credit activity, which is excluded by statute from the unified budget.

The Budget Resolution

Beginning with fiscal year 1981, targets have been included in the budget resolutions for direct loan obligations and for primary and secondary loan guarantee commitments. Credit control through the budget resolutions has evolved since 1981 as described in the following box.

A number of bills have been sponsored in recent years to integrate credit formally into the Congressional budget process. In the 99th Congress, the most comprehensive bill is H.R. 1195, the Congressional Budget Act Amendments of 1985 (the Beilenson Bill), which includes provisions to make the credit targets established in the budget resolution binding and any proposal that would exceed these targets subject to a point of order.

Off-Budget Credit Activity

Problems in the budgetary control of federal credit programs are compounded by the fact that the Rural Electrification Administration (REA), the Federal Financing Bank (FFB), and all guaranteed loans are off-budget. The distinction between on- and off-budget is primarily a distinction that affects unified budget outlays--a legal distinction, not one that affects either the federal government's actual borrowing requirements or any other economic impact of these activities. Table 3 shows the FFB's net outlays from agency credit activity that are excluded from the unified budget totals ($7.3 billion in 1984).

The Beilenson bill proposes to include on-budget the budget authority, credit authority and estimates of outlays and receipts of all off-budget entities. The Administration's budget for 1986 includes similar proposals to move all agencies on-budget.

1981

- The budget resolution established a Congressional federal credit budget for 1981;
- Set nonbinding aggregates for direct loans, primary guarantees, and secondary guarantees; and
- Set nonbinding limits on off-budget lending.

1982

- The resolution added credit targets by major budget function;
- Added nonbinding limits for Federal Financing Bank (FFB) origination of direct loans to agency-guaranteed borrowers and FFB purchase of loan assets from agencies; and
- Added "sense of Congress" language that direct borrowing by agencies be restricted to FFB.

1983

- The resolution set credit targets by function for next two fiscal years targets made binding upon adoption of First Concurrent Resolution as the Second Concurrent Resolution, the only year in which credit targets were binding).

1984

- The resolution set nonbinding credit targets by function for next three fiscal years; and
- Added language that agency transactions with the FFB be charged to agency budget authority and outlays, beginning with the fiscal year 1985 budget (subsequently not enacted).

1985

- The resolution set nonbinding credit targets for the next three fiscal years.

TABLE 3. OFF-BUDGET OUTLAYS
(By fiscal year, in billions of dollars)

Program	1984 Actual	1985 Estimated	1986 Estimated
Sale of Certificates of Beneficial Ownership to Federal Financing Bank			
Agricultural Credit Insurance Fund	1,410	2,052	3,139
Rural Housing Insurance Fund	1,090	2,197	1,946
Rural Development Insurance Fund	320	733	472
Rural Electrification Administration	69	164	311
Others	-28	-20	-24
Total	2,861	5,126	5,844
Federal Financing Bank Direct Loans to Agency-Guaranteed Borrowers			
Foreign Military Sales	2,818	1,884	485
Rural Electrification Administration	1,648	1,923	1,701
Alternative Fuels Administration	404	274	0
Geothermal Energy	-39	79	14
Low-rent Public Housing	112	-32	-35
Small Business Administration	262	388	379
Tennessee Valley Authority	137	90	87
Others	-867	-35	-75
Total	4,474	4,571	2,556

SOURCE: Data for 1984 are from 1986 Budget of the U.S. Government: Fiscal Year 1986--Appendix. Estimates for 1985 and 1986 are from the Congressional Budget Office.

There are several possible ways of bringing the transactions of the FFB on-budget. One is to bring the FFB itself on-budget. This would involve including the receipts and disbursements of the FFB in the unified budget and limiting the extent to which the FFB could purchase direct loans from agencies to amounts specifically approved in prior appropriation acts. Even if the FFB was placed on-budget, however, the agencies initiating the direct or guaranteed loans would not be charged with the budget authority and outlays for their transactions with the FFB.

More accurate and thorough information for Congressional decision-makers would be gained by changing the budgetary treatment of loan asset sales and direct loans to agency-guaranteed borrowers by the FFB. Since loan asset sales are in fact borrowings from the FFB using agency direct loans as collateral (see Congressional Budget Office, Federal Financing Bank and the Budgetary Treatment of Federal Credit Activity, 1982) it would be a more direct portrayal to record this transaction as new loans by the agency, and an increase in its outlays.

Similarly, recording FFB direct loans to agency-guaranteed borrowers as direct loans initiated by the agency, not by the FFB, also would be more accurate. This provision is included in the Beilenson Bill. The budget authority and outlays for these loans would be charged to the agency's budget, and the FFB would record them as lending to the agency.

Charging these off-budget transactions to the initiating agencies would have the same effect on the budget deficit as moving the FFB on-budget. It would, however, make agencies' total funding and lending activities readily apparent, thereby improving decisions about the allocation of federal resources among the various functions and agencies.

What Becomes of Guaranteed Loans Terminated for Default

As mentioned above, one category of direct loans that is not subject to Congressional control is that which results from defaulted guarantees. Guaranteed loans are excluded from the definition of budget authority by the Congressional Budget Act. The basis for this exclusion is that guarantees reflect contingent liabilities of the government and only use budgetary resources if the loan defaults and the lender makes a claim against the guarantee. These claims occur when a borrower has fallen behind in loan payments to the point where the original lender classifies the loan to be in default. At the point of the guarantee claim, the government disburses funds to the lender and takes over the loan. Subsequent payments by the borrower are then made directly to the agency that has placed the loan on its books. The loan is normally converted from a guaranteed loan to a direct loan by this procedure. Of the nearly $39 billion in direct loan obligations for 1984, $3.6 billion was obligated to fulfill commitments to honor guarantee claims (see Table 4).

TABLE 4. GUARANTEED LOANS TERMINATED FOR DEFAULT AND SUBSEQUENT DIRECT LOAN OBLIGATIONS (By fiscal year, in millions of dollars)

	1984 Guarantees Terminated For Default	1984 Direct Loans For Default Claims	1985 Direct Loans For Default Claims (Estimated)
Guaranteed Student Loans	749	749	870
Guarantee Reserve Fund	613	613	683
Small Business Admin.-- Business Loan Investment Fund	613	569	487
Export-Import Bank	461	321	302
Federal Housing Administration Fund	1,756	304	296
Federal Ship Financing Fund	93	102	200
Agency for International Development-Housing	3	27	29
Geothermal Resources	0	0	25
VA Loan Guaranty Fund	1,121	24	23
Economic Development Fund	13	13	12
Health Professions Education Loans	4	4	4
Trade Adjustment Assistance	0	0	4
Indian Loan Guarantee and Insurance Fund	2	2	3
Medical Facilities	1	2	2
Grants to Amtrak	880	880	0
Total	6,309	3,610	2,940

SOURCE: Data for 1984 are from Budget of the United States Government: Fiscal Year 1986--Appendix. Estimates for 1985 are from Congressional Budget Office.

The entire amount of guarantees terminated for default does not always become a direct loan obligation, as explained below. Following is a description of some of the anomolies in the treatment of defaulted guarantees that preclude budgetwide consistency.

Small Business Administration--Business Loan Investment Fund. All guarantees terminated because of default become direct loans on SBA's books. The guarantee amount that is written off represents 100 percent of the loan's face value owed to the lender. However, since SBA guarantees only between 80 percent and 90 percent of the loan, the amount they pay to the lender--and the amount subsequently recorded as a new direct loan by the SBA--is less than the guarantee write-off and is equal to the federally guaranteed portion of the loan.

Export-Import Bank (Eximbank). Most defaulted guarantees are included in a countrywide debt rescheduling program, under which Eximbank expects to recover most of the loans they assume upon default. Of the $460 million of guarantees terminated for default in 1984, 30 percent or $139 million was written off as uncollectable or forgiven debt.

Federal Housing Administration. Over $1.7 billion, or nearly 1 percent of loans guaranteed by the Federal Housing Administration (FHA) was terminated for default in 1984. Most of this amount represents defaults on multifamily properties. Of this amount, only $304 million was converted to direct loan obligations for guarantee claims. The vast majority of guarantee terminations in any year result in property being acquired outright by the FHA. In all cases the FHA fulfills its guarantee to the lender by buying the mortgage. FHA then attempts to resell the property, sometimes financing the new purchaser by extending a direct loan. As can be seen in Table 4, in 1984 FHA was successful in reselling the property for only 20 percent of the guarantees they honored. If the resale value is less than the guarantee claim paid off, FHA incurs a loss in the transaction. Such losses amounted to $1.6 million in 1984. FHA also incurs expenses involved in maintaining their properties in sellable condition and by paying taxes on the property.

Veterans Loan Guaranty Revolving Fund. Like the FHA program, the Veterans Administration (VA) acquires property when they honor a defaulted loan guarantee. In 1984 over $1.1 billion in guarantees was written off, representing almost 1 percent of total outstanding VA guarantees. The VA acquires property in roughly 95 percent of these foreclosures, as they did for $986 million in 1984. Under recently revised accounting procedures, this represents the acquisition of a physical asset and is not counted as a direct loan as it was in the past. For a small amount of defaulted guarantees ($24 million in 1984), the VA exercises a degree of forbearance to the veteran not available from private lenders. The VA allows the veteran to retain the property and make payments to the VA. This situation represents the acquisition of a loan asset by the VA and is the only type of defaulted guarantee that, for the VA, becomes a direct loan immediately upon termination of a guarantee.

The rest of the acquired property is sold eventually. Occasionally the VA must first make improvements on the property ($35 million in 1984). When a qualified new buyer is found, a new direct loan is written and enters VA's portfolio of loan assets as a "vendee loan." To offset the agency expenditure of the property acquisition and resale, VA then packages these vendee loans and sells them through the secondary mortgage market. Sales of vendee loans provided the VA with $812 million in financing in 1984, representing the entire amount of vendee loans initiated in that year.

Federal Ship Financing Fund. As in most programs, when a guaranteed loan defaults, the agency pays the lender and assumes the direct loan on its books. The guarantee is written off at the face value amount of the loan. When the Federal Ship Financing Fund records the obligation as a direct loan, it capitalizes any unpaid accrued interest owed by the borrower, and hence the direct loan recorded is an amount higher than the guaranteed loan written off.

Agency for International Development-Housing Program. Direct loans incurred for guarantee claims in this program are individual payments to the lender which the AID-guaranteed borrower has missed ($27 million in 1984). Unlike default claims incurred by other federal agencies, the loan is not bought in its entirety from the lender. The lender retains the loan on its books, and the borrower makes subsequent payments to that lender. AID records the payment amount as a direct loan. The borrower owes the amount of the missed payment to AID.

The AID-guaranteed loans terminated for default ($3.2 million in 1984) consist largely of loans made in the 1960s, without host country guarantees, to countries that later experienced high currency inflation rates. The lender receives payments in dollars while the borrower still pays in its home currency at the exchange rate on the dollar that existed when the loan was originated (a practice no longer continued). AID makes up the difference to the lender. The amount of the guarantee written off is determined by the difference between the borrower's payments and the amount in dollars that the lender requires.

Use of a Subsidy Calculation

Over and above the limitations presented by net lending and off-budget spending, current budgetary treatment of credit activity understates the costs of subsidies provided, defaults anticipated, and future receipts. Credit activity is substantially different from other kinds of direct spending in that it produces a money-generating asset. Future expected cash inflows from a particular loan depend on its interest rate and loan maturity, as well as on incidence of default. These loan characteristics vary widely among government credit programs and, for some, within a program itself. Disaster loans made by the Small Business Administration, for instance, can be made at either 4 percent if no alternative financing is available to the borrower, or at 8 percent if private financing is available.

One way of capturing the effect of various loan terms, and of estimating future cash inflows of direct loans extended, is to compare the government's loan terms with those of a comparable loan made by the private sector, and to estimate the subsidy to the borrower implicit in the government loan. For instance, if a borrower could take out a loan from a commercial bank at 14 percent and instead takes advantage of a government loan offered at 10 percent, then in effect the government is subsidizing the other 4 percent for the borrower. If the government allows the loan to be repaid over a longer period than a private loan would be, as is usually the case, then the subsidy is even greater.

When the Congress approves outlays for direct loans, it does not consider the future repayments. Clearly, a loan extended at 10 percent will create larger future cash inflows than one extended at 5 percent, and so the effect on the government's future revenues varies widely from program to program. Unfortunately, there has been no examination of loan terms among programs to assure a logical or consistent conformity with agreed-on budgetary priorities. In some cases the interest rate was fixed years ago, such as the 5 percent rate for REA loans, while in others, such as the Export-Import Bank, the rate is tied to current Treasury rates and is changed several times a year accordingly.

As a way of addressing the variance in interest rates (and in the future expected revenues from loans), the Congress could establish guidelines for deter-mining the loan terms among credit programs. Alternatively, the value of the subsidy extended in a particular loan program could be determined and placed on-budget as an outlay of the originating agency. In tables found in Chapter III, the current subsidy extended by the larger loan programs is listed and expressed as a percentage of the face value of the loan principal. This percentage would be multiplied by the amount of direct or guaranteed loan volume for the year and recorded as an agency outlay. This approach would adequately reflect the fact that a dollar loaned at a lower interest rate by one program costs the government more than a dollar loaned at a higher rate by another program.

CHAPTER II

THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration proposes to reduce future direct lending relative to amounts expected if current policies are not changed. Primary loan guarantees would be increased slightly compared with current policy while secondary guarantees would stay at current policy levels. 1/ If the President's proposals are adopted, 1986 direct lending, relative to the baseline projection, would be reduced by 38 percent or $15.8 billion, and primary guarantees would increase by 3 percent or $2.4 billion. Total assisted credit--the sum of the direct and guaranteed lending--would decrease by $13.4 billion.

Over the next five years, 1986-1990, the cumulative projected effects of the Administration's credit proposals are (see Figure 3):

- o Direct loan obligations: $-109.5 billion.
- o Primary loan guarantee commitments: $10.3 billion.
- o Outlays attributed to credit assistance: $-79.8 billion.
- o Credit subsidies: $-48.9 billion.

Subsidized government lending would be cut back most in agriculture, export financing, housing, electricity production and distribution, and general business. Increases in loan guarantees are offered as a substitute for some direct loan programs slated for reduction. Growth in guarantees is pro-

1. Secondary guarantees in which government provides a second guarantee on top of an earlier, primary one, arise principally from Government National Mortgage Association guarantees of securities already backed by FHA and VA guaranteed mortgages. Secondary guarantees have no significant cash-flow or subsidy cost, and thus are not treated further here.